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THE POSTAL SAVINGS-BANK—A SUGGESTION.

BY HAROLD STONE.

THE Postal Savings-Bank Bill has been passed by the Senate as an attempt to satisfy a recognized need for increased savings-bank facilities. It is the purpose of the writer to show the importance and character of savings-banks as now established, the advantages and disadvantages of the proposed postal system and to suggest another plan that might be substituted for the one now under consideration by Congress.

The need of the individual for a safe place for his valuables was recognized long before money was used as a medium of exchange. It was not, however, until the value and earning capacity of money as a commodity were recognized that banks were established. In the year 1810 the Parish Bank of Ruthwell was started in Scotland by the Reverend Henry Duncan. This was organized for the purpose of encouraging thrift among the residents of the parish. It undertook to receive and pay interest on deposits of wage-earners, servants and others, accepted deposits of almost trivial amounts and proved to be quite successful. It was purely a benevolent institution and all money received was paid back to the depositors together with its proportionate share of the earnings. The Ruthwell Bank was probably the first savings institution formed in an English-speaking country, although prior to its formation an English clergyman had received deposits every Sunday evening during the summer and repaid them at Christmas with an additional amount given as a premium for the thrift shown by the parishioners. The clergy played a most important part in the early history of these institutions, both in England and in this country, which perhaps proves that the depositor considers honesty more important than business ability.

In this country the first savings institutions were formed in Pennsylvania, Massachusetts and New York in 1816. The moving cause for the formation of these banks and of all the subsequent ones that have proven successful was an aroused public spirit desirous of encouraging thrift among the poorer classes. They are designed to meet the requirements of the man who has a small remainder after what he has been obliged to expend for the maintenance of himself or family. This type of man has not usually the knowledge or the opportunity to invest his surplus safely, and even if he did acquire the knowledge his amount would be so small that he could accomplish little. It is the purpose of the savings-bank to combine these small amounts, to safely invest them, to divide the interest earned on the combined amount proportionately among the owners. There is probably no class of persons in the world who are as careful of their money as those for whom these banks are organized. A hundred years ago the parish clergyman could ask for deposits and get them because he was personally known to each depositor, but now with our complex life this is out of the question and it is necessary to find a substitute. This has been done, or attempted, by the various State Governments, and has proved successful in direct proportion to the strictness of the laws made to protect the depositor.

It would not be profitable to analyze the laws of the various States in an article of this character. They differ in a great many particulars, but in a general way the laws of the State of New York fairly typify those of other commonwealths. In this State no individual is permitted to draw interest on a deposit in excess of \$3,000, so that the depositors are practically limited to persons of moderate means. The banks are managed by trustees who serve without compensation and are not permitted to borrow directly or indirectly from the funds of the bank and are not allowed to share in any of its profits. Furthermore, the original trustees have to be of a character satisfactory to the Superintendent of Banks, and the Board is self-perpetuating. No one who has taken advantage of any insolvency act or who has permitted a judgment to remain unsatisfied for more than three months is qualified to act. The trustees are required to regulate the rate of interest paid upon deposits in such a manner that the depositors shall receive as nearly as may be all the profits after deducting

necessary expenses, but they are permitted to accumulate a surplus to guard against possible losses. If the surplus exceeds an amount equal to fifteen per cent. of the deposits the excess must be distributed to the depositors. From this it will be seen that the trustees have every inducement for safe and conservative management, and the temptation of personal profit is entirely lacking. This is the assurance given of the honesty of the clergymen of the early times.

The matter of the investment of deposits is equally well guarded. In a general way the investments are limited to Government or municipal bonds, real-estate mortgages and certain railroad bonds. Such banks cannot discount paper, loan on collateral, furnish money for manufacturing or other enterprises or take any of the ordinary business risks. The deposits are considered strictly as trust funds and all investments must measure up to certain fixed standards. Only a certain proportion of the funds may be invested in any one class of securities. The trustees are required to invest all moneys deposited as soon as practicable, but for the purpose of meeting current payments and expenses in excess of receipts they may keep an available fund not exceeding ten per cent. of the deposits on hand or on deposit in any bank in the State. The amount so permitted to be deposited is limited in proportion to the capital and surplus of any such bank. Moreover, savings-bank deposits in any State banking institution are given a preference over other deposits in case of insolvency. The deposits in the savings-banks are protected from any sudden large withdrawals or "runs" by the privilege of demanding notice in advance of any or all withdrawals.

To the honesty of the early-time clergymen we now have in addition the element of careful investments. The combination seems to have given to the public what it requires and has led to the formation of successful savings-banks. These banks have encouraged thrift and prosperity among people of moderate means and have accumulated vast sums that are themselves of great benefit to the public, as under the laws governing their investment they must perforce be used to build up and maintain the welfare of the various communities.

Thus we come to one other function of savings-banks that has become almost as important as the service they render to the depositors. That is the service rendered to borrowers. In the

Eastern States thousands of persons have become landowners and home-builders solely because of the mortgage loans obtainable from these institutions.

In all places that they reach not only is thrift encouraged, but men become taxpayers, and as landowners vitally interested in the welfare of the community. Many are the public schools and other public improvements that look to the near-by savings-banks for their financing. The assistance given to the railroads and to the municipalities outside of the local field is important, but the principle of using the money at home is so strongly entrenched in most banks that such securities are only bought when the local demand does not equal the supply of available money. This custom of supplying home requirements has helped their popularity wonderfully and contributed much to their success.

There have been something over six hundred such banks established in the United States and they are uniformly well supported. Of this number four hundred and sixty-two are in the four Eastern States of New York, Massachusetts, Connecticut and Maine. Their importance in these States may be gauged from the fact that there is not enough money in circulation in the whole country to repay their depositors. There is not enough gold coin in the country by over \$150,000,000 to pay off the depositors in the one City of New York. The average deposit in Massachusetts is over \$360. If the deposits in the State of Connecticut were divided among its population every man, woman and child would receive over \$250. In the State of Maine one person out of every three of the population is a savings-bank depositor.

The success of the savings-banks in these States shows clearly that there is a need for them in the East. In the Southern States there is only one mutual savings-bank. It has about five thousand depositors. In the Middle Western States there are twenty-one composed of 224,000 depositors. There is none in the Western States and only one in the Pacific States, which has nearly 76,000 depositors.

This need of the people has been recognized, and it is proposed to satisfy it by enacting the Postal Savings-Bank Bill. Will the provisions of this bill meet it satisfactorily? The important features of the bill are that the post-offices throughout the country are authorized to receive deposits of savings and that the Government will guarantee to repay them to the depositors together

with interest at the rate of two per cent. a year. The accumulated deposits may be deposited in the neighboring national banks, in which event the national banks are to pay interest at a rate not less than two and one-fourth per cent. and are to guarantee the repayment either by satisfactory collateral or by a bond of indemnity. In addition the deposits are given a preference over other deposits in case of the insolvency of the national banks. In case the funds are not thus deposited they are to be placed with the Treasurer of the United States and invested in specified securities under the direction of a committee which it is proposed shall consist of the Secretary of the Treasury, the Attorney-General and the Postmaster-General.

The bill provides that no one can deposit a larger sum than five hundred dollars, the purpose being to limit the system for the use of wage-earners and persons of small means, and this feature, coupled with the low interest rate, it is expected will do away with any competition with the existing savings-banks. In its progress so far the bill seems to have met with objections and unfavorable comment not only in Congress, but among many prominent men and intelligent bankers. It is a surprising fact that practically all of the objections are limited to the particular kind of plan at present proposed rather than to the general proposal of establishing some savings-bank system. There is no question that the ability to make use of the thousands of post-offices already organized would hasten the development of any savings system, and this feature of the bill seems to be accepted as one of its strongest and least objectionable parts. The main criticism of this part of the bill seems to be that the loss of money in the post-office business each year is a warning that the Government cannot run any business economically. This may be true as to the post-office business, and it may also be true that in the long run the Government could not collect savings so well as a private organization. In the inception of the plan, however, it is hard to see how any other system could be so successful.

The feature of guaranteeing the deposits does not seem to be so free from objection. Aside from a serious question of constitutionality involved, it would seem an unnecessary burden to place on the nation, especially in view of the fact that similar institutions have proved successful without any such guarantee. The Government should throw every safeguard about the funds

collected and should perhaps guarantee good faith in the same manner as any other business organization would do, but further than this it should not go. It does not seem right that the rest of the nation should become liable for any possible loss sustained by the bank depositor unless the Government is at fault in some such way as would make an individual conducting the same kind of business liable. The bill fixes the rate of interest to be paid at two per cent. It is probably right that the rate should be the same for the entire country if the Government is conducting the business, for it would seem that the sovereign power should treat all its citizens alike. If any rate has to be fixed, two per cent. is probably as good as any other. The idea of a fixed rate, however, seems to violate the fundamental idea of a savings institution, namely, that the depositor should receive all his money earned, less the necessary expense of investment. In the East the depositor's money may not earn much over two per cent., but how about the South and West? In the New England States the average interest rate paid by national banks is 2.66 per cent. In the Western States it is 3.69 per cent., and the rate in the South is but little lower than that of the West. The West and the South are the portions of the country most in need of savings-banks. Is two per cent. a fair rate to pay their depositors?

Assuming that these objections can be overcome and granting that the Government has the most satisfactory means for collecting the deposits, the question of their investment remains. The plan to redeposit with the local discount banks is an attempt to keep the funds at home and is thus an attractive element, but would the attempt be successful? These banks are organized primarily for personal profit, and as the management will use the money in whatever part of the country it will bring the largest return a large portion is bound to find its way to the money centres of the country. It would undoubtedly be a great benefit to these banks and would through them probably help local business enterprises to some extent, but it is hard to see where the home-builder or landowner would derive any benefit, for national banks are prohibited from loaning money on real-estate mortgages. Of course the national-bank act might be changed so as to permit investments in this class of securities, but this would be contrary to the fundamental idea of a national bank, which is a bank of discount and should have all of its invest-

ments in the form of quick assets and not in long-time or permanent loans. Aside from this, it must necessarily give a private profit on savings funds, which is contrary to the fundamental idea of giving all the profits to the savings-bank depositors. The giving of a private profit would destroy a most important element in the attraction of deposits.

The six hundred-odd mutual savings-banks in the country pay an average interest rate of 3.85 per cent. If the discount banks were as conservative in their investment of the savings funds as the present savings-banks they would even then be paid over one and one-half per cent. a year for taking care of them. It would appear that the Government might be in the position of saying: "In order to encourage thrift among our citizens of moderate means we ask them to deposit their savings with us. We only charge them a commission of one and three-quarter per cent. a year for taking care of them. Our charges, to be sure, are six or seven times as much as those of other banks that are successfully operated by public-spirited citizens, but then we have to contribute one and one-half per cent. a year to the stockholders of the discount banks and also we guarantee our citizens that we will give them back their deposits."

The other method of investing the deposits as set forth in the bill is better than this, in that it removes the personal profit element. It is the same, in that it does not give the depositors all of the income over expenses. It is worse, in that it removes all chance of the money being used for local purposes. There is a still further difficulty, owing to the fact that it turns over to men who are not of necessity experienced investors the investment of an enormous amount of money. In fact, it would probably be so large an amount that no such committee could possibly devote the necessary time to its proper investment, no matter how experienced its members. It is problematical what this sum would amount to, but if the plan proved to be successful there are methods of forming an opinion. For instance, the average savings-bank deposit per capita of population in the New England States is about \$220, and the average per capita wealth of these States is about the same as the average for the rest of the country. If the per capita of population deposit in New England were taken as an index of the entire country and (on the theory that the present savings accounts would remain as they are) from the

total thus produced were subtracted the present amount of savings accounts in mutual savings-banks (\$3,338,763,704), stock savings-banks (\$495,178,367), national banks (\$756,870,969), and State banks (\$593,551,084), there would remain a total of about twelve billions. This index may be too large because of the low rate of interest that is proposed and the five-hundred-dollar limit on deposits, but to offset this there is the Government guarantee and the great number of banks that would be much more accessible than those on which the index is based. For the sake of conservatism, however, suppose that the total is a third less, or eight billions. In case the deposits were not redeposited with the national banks the committee would have this vast sum to invest and the problem would be enough to trouble any committee. It would take only a little over one-half of it to buy every United States, State, municipal and railroad bond (that is legal under the New York Banking Act) in existence. It would appear to be a physical impossibility for any one committee to manage the investment of such a fund in a way in which trust funds should be invested.

It would seem, therefore, that the proposed law has some excellent features and some that are not. In a small portion of our country there is a well-established system of savings-banks that has proved most successful. In the rest of the country there is a recognized need for some system of savings-banks. Instead of adopting the present Postal Savings Bill, would it not be better to enact a national savings-bank law embracing the good points in the proposed law and the good points of the system now in operation? The existing post-office facilities might readily be used for the collection and accumulating of deposits. These might be turned over to local boards of trustees for investment in accordance with a law patterned after laws now in force in the States in which savings-banks are in operation. As the funds in the hands of trustees gradually accumulate to sufficient size the trustees might incorporate and undertake the collection of the funds as well as their investment and thus gradually relieve the Government from the necessity of operation. Any existing savings-banks should be permitted to reincorporate under the national law and in the localities where they are situated the Government would not need to undertake their operation. Thus there would be no loss sustained by the present banks on ac-

count of Government competition. The investment of the deposits could easily be arranged in such a manner that a large proportion would have to be used in local towns for the improvement of real estate, and under the management of the local boards of trustees the interest rate would naturally adapt itself to the local conditions. If the constitutionality is satisfactorily established the Government guarantee might be used under such a plan. It would hardly seem necessary, however, when the success of the banks that are now operating without it is considered. If it is used it should be in the form of insurance, each bank being taxed a small percentage annually and the accumulation held as a guarantee fund by the Government.

Such a system might prove of great value to the country in another way. The currency system that has been fostered and built up in order to allow the Government to sell its bonds at a low rate of interest has been found to need serious revision. One of the great obstacles encountered in this revision is the preservation of the market value of Government bonds. There is no question that this value would greatly diminish if their use for currency were taken away. If a successful national savings-bank system were in operation there is no reason why a small part of the accumulated funds might not be invested in these bonds. A very small portion of the aggregate amount would be sufficient to purchase all of the bonds now outstanding. These amount to about \$913,000,000, or less than six per cent. of what might be reasonably expected to be the savings deposits of the country.

To summarize the foregoing it would appear: that the true purpose of a savings-bank is to encourage thrift and prosperity by affording a means of safe investment to persons in moderate circumstances, to return to them their money with all its earnings and to furnish money to local borrowers for the development of real estate; that in the greater part of our country a need exists for such banks; that the proposed law, as a whole, is contrary to the fundamental idea of savings-banks; and that the system now in successful operation in a portion of the country could easily be extended to the whole.

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